

**PACT: HELPING CHILDREN
WITH SPECIAL NEEDS, INC.**

**Financial Statements
June 30, 2016 and 2015**

DRAFT

PACT: Helping Children with Special Needs, Inc.
Balance Sheets
as of June 30, 2016 and 2015

ASSETS	2016	2015
Current assets:		
Cash and cash equivalents	\$ 259,237	\$ 345,245
Due from affiliate	251,911	216,530
Patient receivable, net of allowances of \$9,864 and \$8,715	169,760	154,400
Grants receivable	289,598	350,030
Pledges receivable, net	19,725	24,050
Prepaid expenses	1,697	1,697
Total current assets	<u>991,928</u>	<u>1,091,952</u>
Non-current assets:		
Investments	299,976	249,976
Pledges receivable, net	6,588	23,512
Property and equipment, net	1,571	10,998
Total non-current assets	<u>308,135</u>	<u>284,486</u>
Total assets	<u><u>\$ 1,300,063</u></u>	<u><u>\$ 1,376,438</u></u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accrued expenses	\$ 59,633	\$ 57,876
Deferred grant revenue	126,842	110,662
Total current liabilities	<u>186,475</u>	<u>168,538</u>
Net assets:		
Unrestricted	360,834	368,125
Temporarily restricted	752,754	839,775
Total net assets	<u>1,113,588</u>	<u>1,207,900</u>
Total liabilities and net assets	<u><u>\$ 1,300,063</u></u>	<u><u>\$ 1,376,438</u></u>

UNAUDITED - The accompanying notes are an integral part of these financial statements.

PACT: Helping Children with Special Needs, Inc.
Statements of Operations and Changes in Net Assets
for the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unrestricted net assets:		
Operating revenues:		
Grant and contract revenue	\$ 1,599,264	\$ 1,559,404
Day care revenue	756,666	690,768
Patient service revenue	265,053	330,524
Support from affiliate	360,000	273,000
Restricted contributions released for operating activities	229,474	220,386
Other income	226	13,527
Total operating revenues	<u>3,210,683</u>	<u>3,087,609</u>
Operating expenses:		
Salaries, wages and benefits	2,617,751	2,506,763
Supplies and other	370,776	339,248
Rent expense	220,020	245,772
Depreciation	9,427	9,382
Total operating expenses	<u>3,217,974</u>	<u>3,101,165</u>
(Decrease) in unrestricted net assets	(7,291)	(13,556)
Net assets released for property and equipment	-	24
Unrestricted net assets, beginning of year	368,125	381,657
Unrestricted net assets, end of year	<u>360,834</u>	<u>368,125</u>
Temporarily restricted net assets:		
Restricted contributions received	142,453	199,897
Restricted contributions released for operating activities	(229,474)	(220,386)
(Decrease) in temporarily restricted net assets	(87,021)	(20,489)
Temporarily restricted net assets, beginning of year	839,775	860,264
Temporarily restricted net assets, end of year	<u>752,754</u>	<u>839,775</u>
(Decrease) in total net assets	(94,312)	(34,020)
Total net assets, beginning of year	1,207,900	1,241,920
Total net assets, end of year	<u>\$ 1,113,588</u>	<u>\$ 1,207,900</u>

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PACT: Helping Children with Special Needs, Inc.
Statements of Cash Flows
for the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in total net assets	\$ (94,312)	\$ (34,020)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	9,427	9,382
Bad debt expense	35,456	13,243
Change in assets and liabilities:		
Patient receivable	(50,816)	11,732
Grants receivable	60,432	(111,652)
Pledges receivable	21,249	16,073
Accrued expenses	1,757	1,616
Deferred grant revenue	16,180	70,164
Net cash (used in) operating activities	<u>(627)</u>	<u>(23,462)</u>
Cash flows from investing activities:		
Decrease in property and equipment	-	251
Decrease (increase) in amounts due from affiliate	(35,381)	125,649
(Increase) in investments	<u>(50,000)</u>	<u>(99,046)</u>
Net cash provided by (used in) investing activities	<u>(85,381)</u>	<u>26,854</u>
Net change in cash and cash equivalents	(86,008)	3,392
Cash and cash equivalents, beginning of year	<u>345,245</u>	<u>341,853</u>
Cash and cash equivalents, end of year	<u>\$ 259,237</u>	<u>\$ 345,245</u>

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PACT: Helping Children with Special Needs, Inc.
Notes to Financial Statements
for the years ended June 30, 2016 and 2015

1. Description of Organization

PACT: Helping Children with Special Needs, Inc. (“PACT”) is a Maryland non-stock corporation organized for charitable purposes and is tax exempt under Section 501(c)(3) of the Internal Revenue Code. PACT’s sole member is Kennedy Krieger Institute, Inc. (the “Institute”).

PACT’s mission is to promote the development of children with special needs and their families through programs providing comprehensive assessments, early intervention services, family support services, parent education, counseling and specialized childcare.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of PACT have been prepared on the accrual basis, which conforms to accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid instruments with original maturities of three months or less. These investments are carried at cost, which approximates market value.

Investments

Investments are carried at cost which approximates fair value and are temporarily restricted for capital and clinical program expenditures.

Amounts Due From Affiliates

Amounts due from affiliates consist of cash and short-term investments, carried at cost which approximates fair value, and other intercompany receivables and payables. Cash and short-term investments are held by the Institute on behalf of PACT and are used to reimburse the Institute for approved capital and program expenditures made on behalf of PACT.

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Patient Receivable

Patient receivables are reported as amounts due from patients, third-party payers and others for services rendered. The mix of receivables due from patients and third-party payers at June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Medical Assistance	60.5 %	45.4 %
Commercial Insurance	14.5	29.1
Self-pay and other	6.5	19.6
Infants and Toddlers	18.5	5.9
	<u>100.0 %</u>	<u>100.0 %</u>

Allowance for Doubtful Accounts

An allowance for doubtful accounts is recorded for receivables which are anticipated to become uncollectible in future periods. Receivables deemed to be uncollectible have been written off.

Grants Receivable

Grants receivable are recorded when PACT has satisfied grantor restrictions for its use, expenditures have been made and the receipt of funds has not occurred. These awards do not exceed one year and are classified as current assets.

Pledges Receivable

Unconditional promises to give cash and other assets to PACT are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received.

Pledges receivable have been recorded, net of an allowance for uncollectible pledges, from the Promise Campaign and other donor restricted and unrestricted contributions. The allowance against pledges receivable is estimated based on the nature and source of each pledge. Long-term pledges are recorded at their estimated present value using a risk-free rate of return.

Prepaid Expense

Represents primarily postage expense paid in advance.

Property and Equipment

Property and equipment include furniture, equipment and vehicles and are stated at cost.

Depreciation is calculated using the straight-line method over the following estimated useful lives:

Fixed equipment	10-15 years
Vehicles	5-10 years
Office furniture and movable equipment	3-5 years

Unrestricted and Temporarily Restricted Net Assets

Unrestricted net assets represent those net assets utilized in the operating activities of PACT.

Temporarily restricted net assets are those whose use by PACT has been limited by donors and grantors to a specific purpose or time period. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Statement of Operations and Changes in Net Assets as net assets released from restrictions.

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The Impact & Promise campaigns were launched by PACT to raise operating funding for PACT's programs and have been classified as Temporarily Restricted Net Assets.

Revenue Recognition

Grants and contracts are awarded from various governmental agencies and through agreements with other organizations. Grant and contract revenue is recognized as the related project costs are incurred and recorded as expenses. Day care revenue is reported based on amounts received or to be received from governmental and private sources. Patient service revenue is reported at estimated net realizable amounts from patients, third party payors, and others for services rendered, including estimates for contractual allowances with third- party payors and bad debts.

3. Property and Equipment

A summary of property and equipment at June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Property and equipment	\$ 47,134	\$ 47,134
Less accumulated depreciation	<u>(45,563)</u>	<u>(36,136)</u>
Property and equipment, net	<u>\$ 1,571</u>	<u>\$ 10,998</u>

Depreciation expense was \$9,427 and \$9,382 in 2016 and 2015, respectively.

4. Pledges Receivable

Pledges receivable at June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Within one year	\$ 19,725	\$ 24,050
One to five years	<u>7,685</u>	<u>26,729</u>
Subtotal	27,410	50,779
Less: present value adjustment	(1,097)	(1,717)
Less: allowance for doubtful pledges	<u>-</u>	<u>(1,500)</u>
	<u>\$ 26,313</u>	<u>\$ 47,562</u>

5. Investments

PACT has designed certain excess operating funds to be invested with the Kennedy Krieger Foundation's investment pool. These excess funds are intended to be used to fund new initiatives or other future needs of PACT and are being invested with a long-term outlook. These investments are unrestricted. Market values and the asset allocation of these investments at June 30 are:

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	<u>2016</u>	<u>2015</u>
Market Value	\$ 299,976	\$ 249,976
<u>Asset Allocation:</u>		
Equity funds	69%	44%
Fixed income funds	29%	23%
Multi-asset funds	-	29%
Absolute funds	2%	3%
Cash	-	1%
	<u>100%</u>	<u>100%</u>

6. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2016 and 2015 were available for operating and capital expenditures as follows:

	<u>2016</u>	<u>2015</u>
Clinical programs/training	\$ 119,194	\$ 184,385
Promise campaign	312,353	320,818
Impact campaign	321,207	334,572
	<u>\$ 752,754</u>	<u>\$ 839,775</u>

Net assets released from restrictions of \$229,474 and \$220,386 in 2016 and 2015, respectively, were released from temporarily restricted net assets after satisfying the restriction placed in the funds by the donor. These releases related to the operation of clinical programs and were reported in operating revenues.

7. Lease Commitments

PACT conducts its operations in facilities leased from Madison Street Properties (“MSP”), a wholly owned affiliate of the Institute. PACT’s lease with MSP is on a year-by-year basis. Rental expense under this operating lease commitment for the years ended June 30, 2016 and 2015 amounted to \$220,020 and \$245,772, respectively.

8. Employee Benefits, Insurance and Other Administrative Costs

PACT participates in the Institute’s employee benefit program. Employee benefits purchased through the Institute include retirement plans (defined benefit pension plan and 401(k) plan, health and dental insurance, workers’ compensation, life and disability insurance, and unemployment insurance.

Professional and general liability insurance coverages are maintained by the Institute and includes the PACT operation. A portion of the cost is allocated to PACT through general and administrative costs. In addition, other general and administrative costs are allocated from the Institute to PACT. These general and administrative costs include central administration, accounting, payroll, human resources,

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and information systems and totaled \$127,829 and \$122,472 for 2016 and 2015, respectively.

9. Functional Expenses

PACT provides services to children and families in several functional areas. Operating expenses within each area are as follows:

	<u>2016</u>	<u>2015</u>
Program expenses:		
World of Care	\$ 2,047,072	\$ 1,934,581
Therapeutic Nursery	745,262	726,500
Growing Together	193,717	214,624
Total program expenses	<u>2,986,051</u>	<u>2,875,705</u>
Fundraising	104,094	102,988
General and administrative	127,829	122,472
Total	<u><u>\$ 3,217,974</u></u>	<u><u>\$ 3,101,165</u></u>

10. Subsequent Events

PACT evaluated subsequent events through September 14, 2016. There have been no events subsequent to that date that need to be disclosed.